Sagar Grandhi Exports Private Limited

March 13, 2019

Summary of rating action

Instrument*	Previous Rated Amount (Rs. Crore)	Current Rated Amount(Rs. Crore)	Rating Action
Term loan facilities	3.65	3.65	[ICRA]A- (Stable); outstanding
Long term fund based facilities	50.0	50.0	[ICRA]A- (Stable); outstanding
Long term non-fund based facilities	5.0	5.0	[ICRA]A- (Stable); outstanding
Short term fund based facilities	120.0	126.0	[ICRA]A2+; assigned/outstanding
Short term non-fund based facilities	3.0	3.0	[ICRA]A2+; outstanding
Total	**181.65**	**187.65**	

*Instrument details are provided in Annexure-1

Rationale

The assigned ratings factors in the company's healthy performance characterised by strong revenue growth and improving margins in a highly fragmented and competitive industry. Revenues grew at a CAGR of ~14.7% during the five-year period ending FY2018, from Rs.642 crore (FY2013) to Rs.1,111 crore (FY2018). During H1 FY2019, the company reported a 11% decline in revenues from Rs.602 crore (H1 FY2018) to Rs.531.6 crore (H1 FY2019) because of fall in global shrimp realisations. The company faces high revenue concentration with ~86% of its revenues coming from USA and Canada. Revenues from the largest customer group accounted for 82% of revenues during FY2018, up from 79% in FY2017 This risk is partially neutralized by the significant promoter's experience of more than two decades in the shrimp export business and the established relationships with its repeat customers.

The ratings continue to reflect the strong financial risk profile of the company characterised by healthy profitability (Return on Capital Employed of 35% in FY2018), comfortable capital structure and robust debt protection metrics. Going forward, with the company's healthy accrual generation, the capital structure is expected to improve from 0.7x (March 31, 2018) over the next three years despite the capacity expansion plans of Rs.50 crore for adding a new cooking unit and Individual Quick Freezing (IQF) plant during FY2020. Higher value-added output is expected to support margin expansion over the medium term. The company's coverage metrics are also expected to remain comfortable with interest coverage in the range of 9.0x-11.0x over the next three years.

Outlook: Stable

ICRA believes the company will continue to benefit from the extensive experience of its partners and the growth outlook for the Indian shrimp industry. The outlook may be revised to Positive if substantial growth in revenue and profitability, and better working capital management, strengthens the financial risk profile. The outlook may be revised to 'Negative' if cost overrun due to delay in completion of planned capex or stretch in the working capital cycle, weakens liquidity.

Key rating drivers

Credit strengths

Healthy demand for Indian shrimp exports: Global demand for Indian shrimp witnessed an increase of ~26% during FY2018 despite a ~4% de-growth in realizations, supported by ~30% growth in volumes. The robust growth was attributable to low Anti-Dumping Duty (ADD) on Indian shrimp in USA and lower shrimp production in other South East Asian countries. Going forward, the demand outlook for shrimp exports remains favorable on the back of increasing demand from USA. However, supply pressure from other South East Asian markets, which are recovering from past disease hits, is a source of concern. Also, during H1 FY2019 the Indian shrimp exports witnessed a volume growth of 9.2%; however, exports de-grew by 2.8% due to the decline in shrimp realization by 12%.

Operating profits aiding comfortable debt protection metrics: During FY2018, the company's operating margins decreased from 8.9% (FY2017) to 7.7% (FY2018) on account high cost of raw material procurement. However, the net margins increased from 4.4% (FY2017) to 5.3%(FY2018) on account of foreign exchange gain and one time ADD refund of Rs.11 crore. Despite the reduction in the operating margins, the coverage indicators remain comfortable, with interest coverage ratio at 7.1 times and DSCR of 4.7 times during FY2018. Going forward, with further increase in scale and accruals, the interest coverage is expected to be range bound between 9.0x-11.0x over the next three years.

Significant promoter experience in the seafood export business: The Company was promoted by the Grandhi family patriarch Mr. GV Rao in the early 1980's with a capacity to process 122 MTPD. The promoter has more than two decades of experience in the seafood business, which has aided in establishing a strong customer base. Repeat orders from existing customer contribute to 80% of the total revenues in FY2018.

Credit challenges

High geographic and customer concentration: The favorable demand for India shrimp in USA resulted in 33% y-o-y increase in exports to USA during FY2018. With the company's customer profile concentrated majorly in North America, the revenue contribution from USA and Canada was high at 86% and the top customer group accounted for 82.1% of the total revenues during FY2018. Going forward, the high revenue concentration in USA is expected to continue with increasing demand for shrimp exports to USA.

Fragmented industry structure with intense competition- The Indian seafood export industry is highly fragmented with few large players and several small processors. In addition to the intense domestic competition, Indian exporters face competition from countries like Ecuador, Indonesia and Vietnam which are the major producers of Vannamei shrimp.

Aquaculture production vulnerable to change in climatic conditions and disease outbreaks thereby impacting sales- The risk of extreme climatic conditions and disease outbreaks are inherent in the shrimp farming. Extreme climatic condition would result in adverse farming conditions which in turn could affect mortality rates and the quality of shrimp farmed. However, better farm management practices such as lower number of production cycles with sufficient time gap and low stocking density have aided in limiting production loss.

Liquidity Position:

The company has a comfortable liquidity position supported by adequate buffer on working capital utilisation (average utilization of 74% during the 12-month period ended Septmeber'2018), healthy balance of cash and liquid investments to the tune of Rs.30.3 crore as on March 31, 2018 coupled with healthy accrual generation of Rs.30-40 crore y-o-y. This can comfortably support the scheduled repayments and the upcoming capital expenditure.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation / Standalone	Standalone financial statements

About the company:

Sagar Grandhi Exports Private Limited (SGEPL) is one of the largest processors and exporters of seafood from India. The company was promoted by the Mr. G.Venkateswara Rao in the early 1980's. The business is now managed by two of his sons-Mr. G Balaji, the current Managing Director and Mr. G Chella Rao, Executive Director.

The company has a seafood processing factory with a capacity of ~44 MTPD, in Singarayakonda, in the coastal belt of Andhra Pradesh and a plant with a capacity of ~78 MTPD in Chittedu in Andhra Pradesh, which commenced operations in December 2012. The company sources its raw material from farms in the AP coastal belt, through its purchase centres and agents; procurement is largely from aquaculture farms with Vannamei shrimp accounting for ~100% of revenues.

In FY2018, the company reported a net profit of Rs. 58.4 crore on an operating income of Rs. 1,111.3 crore, as compared to a net profit of Rs. 39.4 crore on an operating income of Rs. 899.7 crore in the previous year.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. Crore)	899.7	1,111.3
PAT (Rs. Crore)	39.4	58.4
OPBDIT/OI (%)	8.9%	7.7%
RoCE (%)	29.8%	35.0%
Total Debt/TNW (times)	1.3	0.7
Total Debt/OPBDIT (times)	2.0	1.5
Interest coverage (times)	6.7	7.1

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for the last three years:

	Instrument	Type	Amount Rated (Rs. Crore)	Amount Outstanding (Rs. Crore)	Current Rating (FY2019) Date & Rating Mar 2019	Jan 2019	Nov 2018	Chronology of Rating History for the Past 3 Years Date & Rating in FY2018 Nov 2017	Date & Rating in FY2017 Sep 2016	Date & Rating in FY2016 Sep 2015
1	Term Loan	Long Term	3.65	3.65	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
2	Packing Credit	Long Term	50.0	NA	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
3	Bank Guarantee	Long Term	5.0	NA	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
4	FBD Non LC	Short Term	120.0	NA	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2	[ICRA]A2
5	Credit Exposure Limit	Short Term	6.0	NA	[ICRA]A2+	-	-	-	-	-
6	Letter of Credit	Short Term	3.0	NA	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2	[ICRA]A2

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	March 2018	NA	March 2020	3.65	[ICRA]A- (Stable)
NA	Packing Credit	NA	NA	NA	50.0	[ICRA]A- (Stable)
NA	Bank Guarantee	NA	NA	NA	5.0	[ICRA]A- (Stable)

NA	FBD Non LC	NA	NA	NA	120.0	[ICRA]A2+
NA	Credit Exposure Limit	NA	NA	NA	6.0	[ICRA]A2+
NA	Letter of Credit	NA	NA	NA	3.0	[ICRA]A2+

Source: SGEPL.

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
NA	NA	NA

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About ICRA Limited:

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